



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	HB0164	Title:	School collective bargaining agreement may not prohibit volunteers
Primary Sponsor:	Koopman, R.	Status:	As Introduced

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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$106,103)	(\$110,878)	(\$115,867)	(\$121,081)
Net Impact-General Fund Balance	<u>(\$106,103)</u>	<u>(\$110,878)</u>	<u>(\$115,867)</u>	<u>(\$121,081)</u>

Description of Fiscal Impact: This legislation would allow taxpayers who volunteer their services to a school to deduct the value of the salary of the position they are filling. Although this deduction would reduce Montana tax liability and therefore decrease tax revenues, it is not possible to estimate the fiscal impact of this legislation because it is unclear how many people would claim the deduction.

FISCAL ANALYSIS

Assumptions:

1. The proposed legislation would allow a tax deduction to volunteers that provide instructional services to a school district. The amount of the deduction would be the greater of 1) the current annual salary of a certified teacher or specialist, 2) the annual salary of the volunteer's last teaching position in the school district, or 3) the current annual salary for the position filled by the volunteer.
2. For the purposes of this fiscal note, it is not anticipated that individuals will volunteer sufficient time providing instructional services that school districts will be able to forego employing teachers. Therefore schools are not projected to experience significant savings under this proposal.
3. Total instructional salaries are projected to be \$533.182 million in FY 2008, \$557.175 million in FY 2009, \$582.248 in FY 2010, and \$608.449 million in FY 2011. While no estimate is available regarding the number of volunteer hours in the schools and the effect this deduction would have on those numbers, it is expected there will be some individuals who volunteer who will use the deduction if available. If volunteer services equate to 0.50% of total instructional salaries, estimated deductions will be \$2.666 million in FY 2008 (\$533.182 million x 0.50%), \$2.786 million in FY 2009 (\$557.175 million x 0.50%),

\$2.911 million in FY 2010 (\$582.248 million x 0.50%), and \$3.042 million in FY 2011 (\$608.449 million x 0.50%).

4. In tax year 2005 the average effective tax rate for full year residents was 3.98% (*Biennial Report, July 1, 2004 to June 30, 2006*, DOR, p. 29). If this rate is applied against estimated deductions in assumption 3, then the estimated impact on individual income tax is:
 - \$106,103 reduction in FY 2008 (\$2.666 million x 3.98%),
 - \$110,878 reduction in FY 2009 (\$2.786 million x 3.98%),
 - \$115,867 reduction in FY 2010 (\$2.911 million x 3.98%),
 - \$121,081 reduction in FY 2011 (\$3.042 million x 3.98%).
5. HB 164 has no impact on the distribution of state aid to schools.

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<u>Fiscal Impact:</u>				
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
<u>Revenues:</u>				
General Fund (01)	(\$106,103)	(\$110,878)	(\$115,867)	(\$121,081)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$106,103)	(\$110,878)	(\$115,867)	(\$121,081)

Technical Notes:

1. This legislation does not specify whether the salary amount allowed as a deduction should be prorated by the number of hours worked by the volunteer. For example, a retired teacher may volunteer for 20 hours each week. Under the proposed legislation, this volunteer could deduct the full amount of the salary which the teacher formerly received while employed by the school district, even though this compensation was for a 40-hour work week, not for a 20-hour work week.
2. The provision of allowing a tax deduction for the value of time volunteering services is contrary to federal and state tax law, which has historically not allowed an individual to value volunteer services. True deductions require an expenditure (or a legally binding, fixed obligation to pay an amount for accrual basis taxpayers). Allowing a deduction against state income in lieu of paying the taxpayer creates a number of tax and non-tax problems. For example, for the purposes of federal taxation, this deduction could be viewed as taxable income or a taxable employer-provided benefit. Because the donation of services is coupled with employment and an expectation of personal benefit through a state tax benefit, a deduction for a charitable contribution would likely not be allowed federally.
3. Most of these tax and non-tax problems involved with this legislation could be avoided by structuring the provision more directly. Teachers are already allowed to donate all or part of their salary to a school district and, provided that the donation is not tied to their employment and is given with a true donative intent, they will receive a federal and state charitable contribution deduction.
4. This legislation is not clear whether 2007 or 2008 would be the first tax year this deduction is allowed. This fiscal note assumes that the deduction would retroactively cover volunteer services provided starting January 1, 2007.
5. It is difficult to estimate the use of this tax deduction. The impact of this legislation could be significant if many taxpayers utilized the deduction.

Sponsor's Initials

Date

Budget Director's Initials

Date